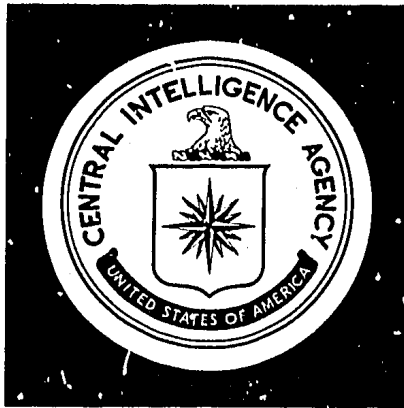


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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

Cuba: Economic Impact of the Recent Drought

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
June 1972

INTELLIGENCE MEMORANDUM

CUBA: ECONOMIC IMPACT OF THE RECENT DROUGHT

Introduction

1. Cuba has been afflicted by natural adversities in 7 of the last 13 years. The latest and perhaps most serious of these was a two-year drought that started in early 1970 and then progressively worsened. Although rainfall has returned to nearly normal levels since late 1971, the effects of the earlier drought will still be felt in 1972, primarily because of the damaged sugar crop. This memorandum places the drought in perspective and assesses its impact on the Cuban economy.

Discussion

Scope of the Drought

2. During 1970-71, Cuba experienced one of its worst droughts of the last century (see Figure 1). Beginning in the eastern provinces in the spring of 1970, the drought spread throughout the island as the year advanced. Rainfall for the year averaged 13% below the historic norm for the island as a whole and 20% below normal in Oriente, the important sugar-growing province. Moreover, precipitation was furthest below normal during May-October, usually the rainy season when sugarcane achieves most of its growth for the following year's harvest.

3. During early 1971, acute drought conditions prevailed throughout the island, and rainfall for the first nine months of the year averaged only

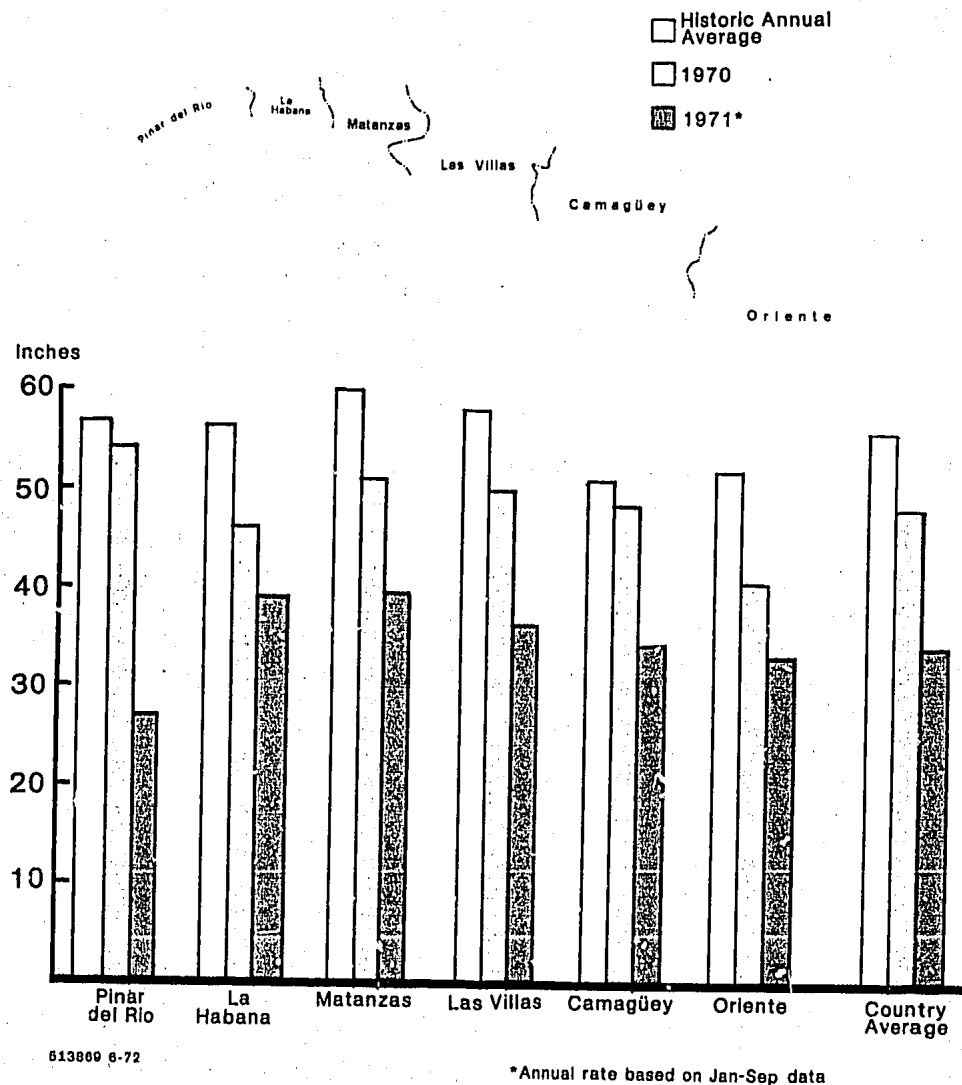
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Rainfall By Province

Figure 1



about 60% of the norm. Conditions continued to worsen in Oriente Province, and severe drought hit the other important agricultural provinces of Las Villas, Camaguey, and Pinar del Rio as well. Moreover, by early 1971 the surface irrigation system, normally Cuba's most effective defense against dry weather, was all but exhausted. Problems were further aggravated

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in mid-November by tropical storm Laura, which caused heavy flooding in the western provinces.

Production Impact

4. The drought had relatively little effect on economic performance during 1970. With the exception of a few livestock products, coffee, and some food crops, non-sugar agriculture was only marginally affected because most crops had reached maturity before the drought began. The dry spring actually gave sugar production a boost by allowing an abnormally long harvest season. Because labor and other resources were diverted to Castro's all-out sugar drive, however, other agricultural production as well as manufacturing and construction activities suffered in 1970.⁽¹⁾ Nevertheless, record sugar output increased gross national product (GNP) by about 5%, to the highest level in Cuban history (see the table).

5. The drought's economic impact in 1971, however, was severe. Despite a resurgence of industrial activity from its abnormally low 1970 level, substantial production losses throughout agriculture brought a 5% decline in GNP. The all-important sugar sector suffered the most, and the volume of cane harvested fell by 35% even though good harvesting conditions prevailed and virtually all of the available cane was cut. Raw sugar output dropped to 5.9 million metric tons – some 30% below 1970's record 8.5 million tons. Although part of the shortfall must be attributed to a natural letdown after the previous year's extraordinary effort and to perennial labor and transportation difficulties, the dry 1970 growing season was an equally important factor.

6. The few statistics available suggest that non-sugar agriculture also suffered heavy production losses in 1971. About two-thirds of Cuba's tobacco – the second most important agricultural export – is grown in Pinar del Rio, where rainfall plummeted to 40% of the norm during the main growing season. As a result, production fell to an estimated 26,000 tons compared with approximately 40,000 tons in 1970 and tobacco rationing was tightened in order to bolster sagging exports. Coffee production, concentrated in Oriente Province, probably also declined sharply. The drought's impact on other crops is less clear, but a sharp increase in food imports indicates that production was seriously affected. The output of rice – the island's most important food crop – reportedly was cut in half, apparently because of the diminished irrigation capacity. Because Cuba's livestock are mainly range-fed and pasture lands were heavily

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Gross National Product, by Sector of Origin

	Million 1957 Pesos									
	<u>1957</u>	<u>1961</u>	<u>1963</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971^a</u>	<u>1972^b</u>
Sugar	710	845	475	765	770	660	690	935	755	565
Agricultural production	395	475	260	415	420	360	375	505	410	330
Industrial production	315	370	215	350	350	300	315	430	345	235
Agriculture (except sugar), forestry, and fishing	345	350	310	290	320	310	320	305	270	320
Industry (except sugar)	485	550	590	575	625	640	650	605	640	660
Construction	110	145	140	155	155	155	150	140	140	150
Transportation and communications	170	155	145	190	210	215	220	230	235	240
Services	980	1,215	1,210	1,235	1,280	1,285	1,300	1,285	1,285	1,300
Gross national product	2,800	3,260	2,870	3,210	3,360	3,265	3,330	3,500	3,325	3,235

a. Preliminary.

b. Projected.

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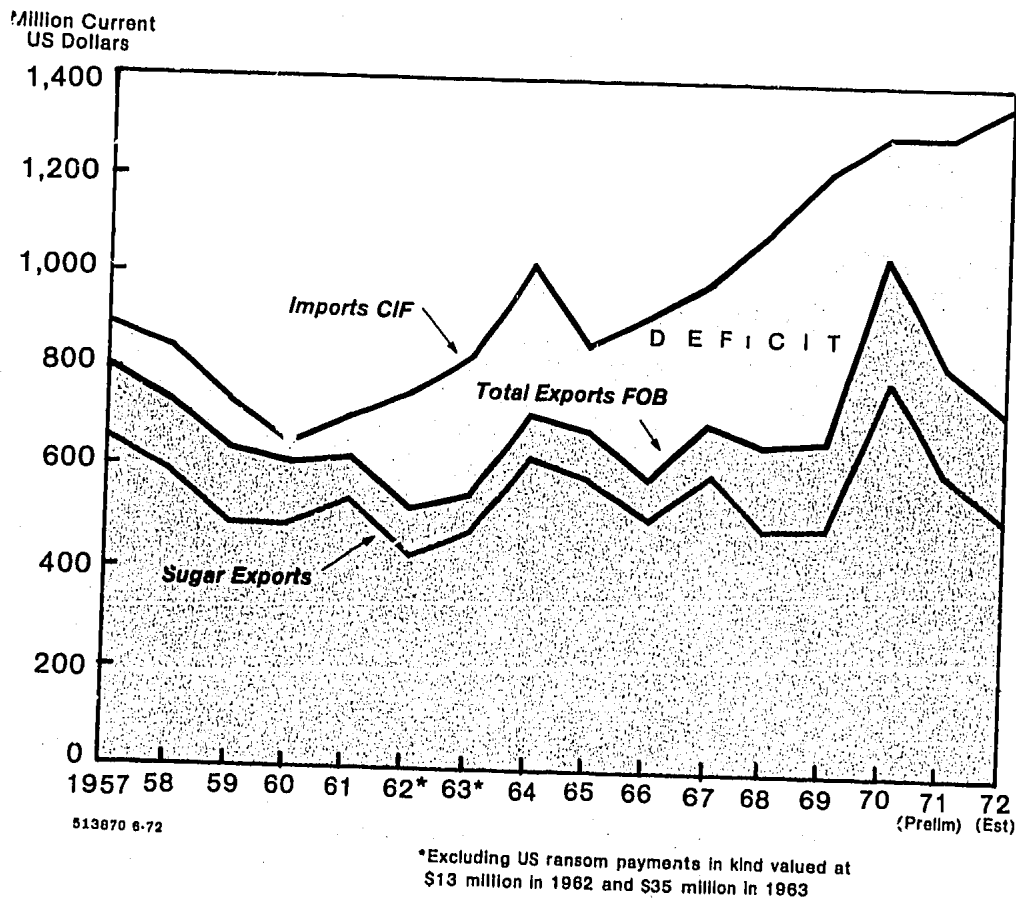
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damaged, the cattle and dairy industry probably suffered a significant production decline.

7. After rising to a record \$1,045 million in 1970, Cuba's export earnings declined to about \$825 million in 1971, largely as a result of fluctuating sugar sales (see Figure 2). Total sugar export earnings in 1971

Value of Foreign Trade

Figure 2



fell by an estimated \$185 million, as deliveries to the USSR were cut in half. Shipments to other areas were maintained, however, and earnings from them increased moderately because of a firming up in world market prices. Tobacco exports dipped slightly, despite rationing, and nickel exports

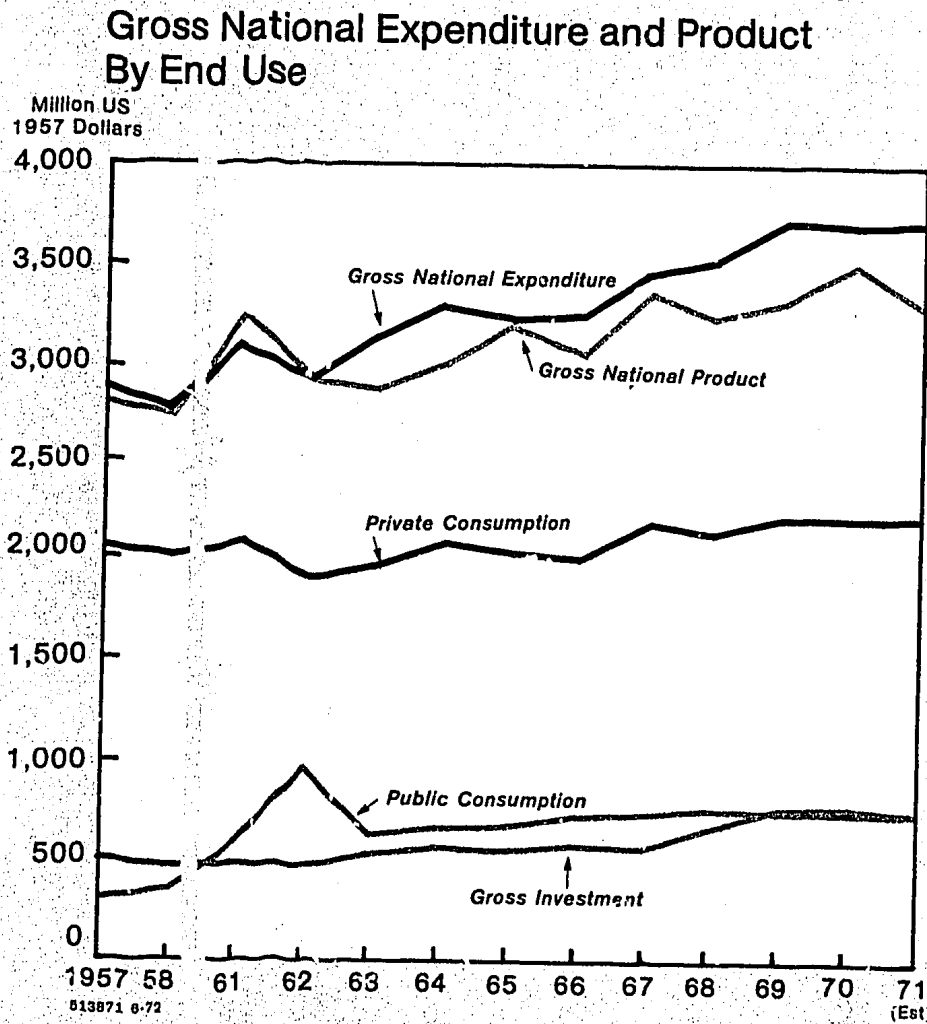
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declined by an estimated \$25 million because of an adjustment in prices paid by the USSR⁽²⁾ and production problems at the Nicaro plant.

8. Despite sharply reduced export earnings, Cuba was able to fill its basic import requirements in 1971 by drawing heavily on Soviet credits. In fact, imports at least matched the \$1,300 million record set in 1970. The widening trade gap enabled gross national expenditures to exceed GNP even more than they had in previous years (see Figure 3). Most - if not

Figure 3



2. In 1970 the USSR had raised its price for Cuban nickel by almost 200%, bringing the value closer to world market levels, but it apparently reduced its price somewhat in 1971.

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all -- of the rise in imports consisted of food and raw materials, reflecting an apparent government effort to maintain private consumption at pre-drought levels.

9. Drawings on Soviet credits in 1971 approximated \$500 million, a record for any one year. As a result, Cuba's total debt to the USSR for economic aid alone rose to an estimated \$3.0 billion. Drawings on economic loans from most other Communist countries continued to decline in 1971, and cumulative debt obligations to them are estimated at less than \$350 million. Although the flow of commercial credits from Cuba's non-Communist trading partners also slowed, bringing a decline in imports from this area as well, outstanding obligations to these creditors still totaled some \$450 million by the end of 1971.

Prospects for 1972

10. Cuba probably will have near-normal rainfall this year. Available evidence indicates that rainfall picked up considerably in the last quarter of 1971 and was above normal during the first quarter of 1972. The return of adequate precipitation will have only a moderate impact on total agricultural production in 1972, however, because the drought's longevity and intensity has already inflicted irreparable damage on the sugar crop.

11. We now estimate the 1972 sugar harvest at about 4 million tons -- more than a 30% decline from the depressed 1971 output. Although sugarcane acreage apparently had changed little, the volume of harvestable cane probably was some 20% to 25% lower than in 1971, primarily because of the dry growing season but also because of insufficient cane plantings in 1970 and 1971.⁽³⁾ The supply of cane also has been adversely affected by inadequate weeding and the failure to apply sufficient fertilizer and herbicides to offset widespread cane burning last year. While cane burning improved harvest labor force productivity in 1971, it destroyed the leaves and chaff which otherwise would have inhibited weed growth and fertilized this year's crop. Moreover, the cane's sugar content apparently is low due to the abnormal weather during the cane ripening process. Finally, unseasonably heavy rains during the harvest itself have retarded cane deliveries to the mills, thus tending to reduce still further the cane's sugar content.

3. Cuba normally replants some 10% to 15% of its cane stand each year. Because most of the replanting occurs at the same time the cane is cropped, replanting was cut back drastically in 1970 as resources were concentrated on harvest activities. In 1971, replanting again fell well below normal, mainly because of prevailing drought conditions.

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12. The prospects for non-sugar agriculture are more favorable. Above-normal rainfall since last fall should bolster the yields of crops planted in the fall and harvested in the spring. A case in point is tobacco output, which reportedly is expected to increase by 60% over last year. Coffee and most food crops could rebound to their 1970 production levels. Moreover, some crops, such as rice, will benefit from the replenished irrigation system. The heavy rains in November recharged the numerous small dams which supply most of Cuba's irrigation facilities.

13. Because of sugar's importance, the dismal performance in prospect for 1972 will overshadow any improvement in other agricultural output and the expected rise in manufacturing production. As a result, GNP is expected to decline by about 3% (see the table). Export earnings also will fall for the second year in a row and probably will not exceed \$740 million. The volume of sugar deliveries to the USSR is expected to decline to no more than 1.0 million tons, compared with 1.5 million tons in 1971. Exports to other Communist countries, particularly the People's Republic of China, also will be cut back to free sugar for export to non-Communist trading partners. Nevertheless, shipments to non-Communist countries probably will decline by half a million tons in 1972. Earnings from these exports, however, will be significantly higher than last year because of exceptionally high world market prices. The world sugar market boom and continued heavy drawings against Communist country credits should enable Cuba to increase imports slightly above last year's level.

14. Cuban drawings against Soviet credits will reach a new peak in 1972 and could exceed 1971's record level by as much as 20%. Because large-scale aid would be needed even had no drought occurred, Soviet concern over Cuba's lack of economic progress has visibly increased. Two high-level Soviet delegations visited Havana in 1971 to survey the economy, and the number of Soviet advisers working in Cuba appears to have increased. In light of recent large aid disbursements, it seems likely that the USSR will increase pressure on the Castro regime for meaningful economic reform.

15. Thus far, however, Soviet pressure on Castro has yielded few results. Castro has made some minor adjustments in economic policies He also has allowed small adjustments in the price structure and introduced a few material incentives designed to stimulate worker productivity. The marginal nature of these reforms, however, probably has done little either to stimulate the economy or to relieve Soviet-Cuban tension over economic management. Although a return to normal weather will probably bring economic recovery in 1973, the absence of basic policy changes suggests little more than a return to the sluggish growth that has characterized the Cuban economy since the revolution.

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